

FILE 25X1

Central Intelligence Agency



Washington, D.C. 20505

DATE 9/10/86 FILEDOC NO EUR M 86 20101OIR 3P & PD 1

28 August 1986

France and the New Trade Round: Belling the GATT

25X1

Although initially skeptical of the notion of a new trade round, France over the past year and a half has warmed to the idea and now believes it can further its interests in important sectors, especially the liberalization of trade in services. In addition, French officials see multilateralism in trade as threatened by mounting protectionism and believe that a new round is necessary to prevent a deterioration of the GATT regime and a drift toward bilateralism. French policymakers remain deeply suspicious of US motives in the new round, however, and are on guard against what they fear may be US attempts to force the pace of the negotiations or divide the EC.

25X1

France's overriding concern in the trade round will be to protect its agricultural sector by preventing any major changes in the EC's Common Agricultural Policy (CAP). Paris is likely to stick closely to the script of the 1985 EC statement that declared the fundamentals of the CAP--its high domestic price supports, import protection, and export subsidies--off limits in the negotiations. Among the tactics the French may employ are insisting on an integrated approach to the negotiations to make them more complex and time consuming, attacking other countries' agricultural policies, linking parallel monetary talks to the trade round, and quietly encouraging the developing countries to interject Third World demands. We believe Paris as a last resort would use its veto power in the EC to scuttle the negotiations rather than make major concessions on the CAP such as agreeing on a timetable for phasing out export subsidies. On other issues of concern to the United States, France is likely to be sympathetic to the special needs of the LDCs and to come down hard on Japanese trade practices.

25X1

This memorandum was prepared by [ ] Office of European Analysis. Questions and comments are welcome and may be addressed to [ ] Acting Chief, West European Division [ ]

25X1

25X1

EUR M86-20101

25X1

25X1

25X1

### The Political Backdrop to Trade Policy

Since March France has labored under an unprecedented powersharing arrangement--nicknamed "cohabitation"--between Socialist President Mitterrand and conservative Prime Minister Chirac. While Mitterrand generally has the predominant role in foreign policy, Chirac will have ultimate responsibility for trade policy (See Appendix). Further complicating the situation is the fact that the two men may well face each other in the presidential election scheduled for 1988.

25X1

In our view, the domestic political situation is likely to have three influences on French trade policy. First, since the next election will almost certainly be fought on economic issues, Chirac will be under pressure to appear publicly as having furthered French interests in any negotiations. Any concessions by French negotiators will be trumpeted by Mitterrand as a betrayal of France in the interest of misguided conservative ideology. Hanging tough on trade issues--and standing up to the United States--plays well in France, and Mitterrand's popularity shot up after his strongly nationalistic performance at the Bonn Summit last year. Second, for the time being at least, domestic affairs are likely to rivet the attention of top leaders. This has already been evident as Edouard Balladur, the powerful economics minister, has focused on privatization and unemployment rather than trade. As a result, the formulation of trade policy so far appears to have been largely left to seasoned civil servants working under Balladur's inexperienced junior minister for trade, Michel Noir. Finally, political uncertainty in France--and the prospect of looming elections--is likely to give French officials a convenient excuse for moving slowly in trade talks, arguing that the French Government cannot negotiate effectively until it has a firm political mandate.

25X1

The next election, in our view, is likely to settle the French political scene and end cohabitation. As a result, trade policy will become somewhat less politicized, and the chances for volatile French behavior and nationalistic outbursts in the trade talks will be reduced. We believe that cohabitation is likely to prove tiresome for both the French public and politicians and that after 1988 one party will again control both the Presidency and the government. If the right's leadership is reaffirmed, the conservatives may redouble their commitment to economic liberalization, which in the long run should encourage a constructive French approach to the trade round. Should Mitterrand be reelected and a Socialist government returned to

25X1

25X1

[redacted]

power--which currently seems less likely--we believe that French policy will be slightly more protective of French markets and stress more international market sharing but cling overall to traditional French approaches to trade issues. Under either circumstance we would expect Paris to work out a long-run strategy for the trade talks and stick doggedly to it for the balance of the negotiations. [redacted]

25X1

### Agriculture: The Overriding Concern

Agriculture will be the paramount issue for France in the new round, both because of its significant role in the French economy and because it is an emotionally charged and politically explosive issue. Moreover, the French genuinely believe that they hold the moral high ground in agricultural trade and that they are justified in their self-appointed role as guardians of the CAP.

[redacted]

25X1

### The Economic and Political Importance of Agriculture

According to World Bank figures, France led the EC in value added in agriculture with \$30 billion in 1984--well ahead of Italy (\$25 billion), West Germany (\$21 billion), and the United Kingdom (\$11 billion). Although agriculture by itself accounts for only 4 percent of French GDP, the agricultural and agribusiness sectors taken together account for between 15 and 20 percent of France's domestic product, according to US Embassy figures. In addition, agriculture provides 8 percent of French jobs, and agricultural exports exceeded imports by about \$3.8 billion last year, helping to compensate for France's lack of competitiveness in industrial goods. [redacted]

25X1

Beyond its economic significance, agriculture looms large on the French political scene. The farm bloc's share of the total electorate is nearly three times as large as that in the United States, and French farmers have an exceptionally high voter participation rate. French farmers are also militant, well organized, and eager to take to the streets in publicity-grabbing demonstrations. In addition, according to diplomatic reporting, the owners of some high value added food processing industries,

25X1

25X1

such as cognac distilling, high-quality wine production, and cheese making, wield considerable political clout in France. Finally, many nonfarm voters remain sympathetic to agricultural concerns because they once lived or worked on farms; less than four decades ago agriculture still employed more than one third of the French labor force. [REDACTED]

25X1

French farmers tend to be to the right of center politically, and in the recent legislative elections 54 percent of the farm vote went to the conservative coalition, with an additional 11 percent going to the extreme right. Farmer support is particularly vital for Chirac, who has served as a National Assembly deputy from a rural area in the south of France. He must preserve the support of farmers lest he be nudged out as the the right's presidential frontrunner by Raymond Barre or another conservative challenger. Chirac's government came to office promising to protect farm incomes--by increasing EC export subsidies if necessary--and Chirac at one point even advocated renegotiating the EC accession treaties with Spain and Portugal to win a better deal for French farmers. To avoid reneging on these campaign promises--which Chirac and his aides know will be hard to keep because of the sorry state of EC finances--the government is under all the more political pressure not to make concessions on agricultural trade issues. [REDACTED]

25X1

### The Role of the CAP

The CAP is both the cornerstone of France's domestic agricultural policy and at the heart of French European policy. By far the largest EC program, the CAP eats up more than two-thirds of the Brussels budget with its complex mix of generous price supports, import restrictions, and export subsidies. In French eyes it is a symbol of EC unity--and one that locks the rest of the community into a commitment to maintain both farm incomes and agricultural exports. The CAP is a vital smokescreen for France--one of the Community's most aggressive exporters--diffusing direct criticism of Paris for subsidizing agricultural sales. In addition, it disguises French efforts to construct tariffs and barriers against agricultural imports from third countries. [REDACTED]

25X1

Although the CAP is not costless to France--which is now a net EC contributor--the French calculate that the price is well worth the benefits. [REDACTED]

25X1

[REDACTED] The French consequently

25X1

25X1

believe that CAP reform must proceed slowly. Above all, they insist that this is an internal EC question, and French officials take umbrage at what they perceive are third country efforts to influence the course of the Community's debate. This attitude helps explain, we believe, the French impulse to rally EC forces and display the kind of obstinancy for which they are famous when the principle of EC solidarity is at stake. [REDACTED]

25X1

French Tactics to Protect Agriculture in the New Round

France will fight hard in the new round--as it did in the preparatory committee--to minimize risk to the Common Agricultural Policy. [REDACTED]

25X1

Ultimately, we believe, Paris would be willing to block the negotiations, using its effective veto in the EC, to avoid major concessions on the agricultural export subsidy issue. French officials hope, of course, that less drastic tactics will suffice to protect the CAP. Initially they will strive to limit the mandate for negotiating agriculture, stressing the Community's 1985 declaration. The primary French tactic, in our view, will be to argue that since France is not the country demanding agricultural negotiations--but rather is being asked to accede to the request of others--it is only fair that French conditions be satisfied. If pressed, we believe Paris will first try quiet dilatory tactics to drag out the negotiations and then resort to stonewalling if necessary. French officials also will not hesitate to counterattack by charging that the agricultural policies of other countries--especially the US and Japan--also distort trade and must be open to negotiation if the CAP is. [REDACTED]

25X1  
25X1

25X1

25X1

Other Important Issues for FranceServices

If agriculture is the issue on which the French will be most defensive in the new round, services is the sector where they see the greatest promise of benefits for France. Initially skeptical about discussing services, Paris eventually concluded that its interest lies in the development of a services trade regime, in part because France last year enjoyed a surplus of over \$4.1 billion in services trade.

25X1

[redacted] we believe the French have several overall objectives in the services negotiations:

--To make the discussions on services an integral part of the overall trade negotiations; [redacted]

25X1  
25X1

--To diminish protectionism in the services sector as much as possible.

--To prevent the development of bilateral regimes for services trade by bringing services into the GATT multilateral framework. [redacted]

25X1

The French are likely to take a measured approach to negotiations in services because of the complexities of dealing with such a difficult issue in multilateral trade negotiations for the first time. Paris will stress the diversity of the services sector and the differing regulatory schemes covering such varied issues as tourism, financial services, and telecommunications services. Also, to achieve the necessary consensus for negotiating on services, the French believe it is important to assuage the fears of the developing countries. [redacted]

25X1  
25X1Treatment of LDCs

France has consistently argued that multilateral trade negotiations without the developing countries would not be worth the effort and that consensus will be necessary to insure

25X1

25X1

meaningful LDC participation. Paris's conviction that the developing countries must be brought on board in the negotiations stems from its concerns about the erosion of multilateralism in world trade. The French are likely to continue to try to mollify the developing countries, although they are unlikely to be swayed by the demands of the Third World hardliners. The French are aware that the developing countries view Paris as one of the more sympathetic developed countries, and France may try to use this to its advantage, possibly by tacitly encouraging dilatory LDC tactics when it serves Paris's interests to drag out the negotiations. On the other hand, Paris can play an important role in helping to counsel moderation among the LDCs. [REDACTED]

25X1

### The Trade/Monetary Linkage

Over the past few years, French insistence that monetary negotiations be held in parallel with the new GATT round was largely a ploy to complicate the start of the trade round. Nevertheless, the French genuinely believe that monetary questions are inseparable from trade problems. In particular, they are concerned that a new wave of international monetary instability will either nullify or distort hard-won trade concessions. [REDACTED]

25X1

The French have applauded recent advances in international monetary cooperation, which have lessened some of their concerns.

25X1

[REDACTED] While applauding these developments, and followup statements at the OECD ministerial in April and the Tokyo Summit in May, French officials have warned that the momentum must be maintained, especially if a new bout of monetary turbulence flares up during the trade round. Thus, French officials will, in our view, continue to stress the importance of parallel efforts in trade and monetary negotiations. [REDACTED]

25X1

We do not discount the possibility that France may again raise the issue of monetary instability as a tactical tool for slowing the trade talks--which, after all, are likely to continue for years--if it suits French interests at some later date. [REDACTED]

25X1

25X1

### High technology

25X1

25X1

[redacted]

Paris maintains that high technology is insufficiently defined to make the issue the proper subject of negotiations. [redacted] the French are suspicious that the United States will seek in the new round to ban import protection and other government support for infant high-tech industries. Accordingly, the French are likely to argue that high technology should be treated no differently than any other industrial sector and be negotiated within the framework of exisiting GATT regulations. [redacted]

25X1

25X1

### Japan

France is especially concerned about its trade deficit with Japan--\$1.8 billion in 1985, second only to its deficit with West Germany--and is likely to take one of the hardest lines in the EC against Tokyo. [redacted]

25X1

25X1



## APPENDIX

Decision making in French Trade Policy

Despite the intense political jockeying between the president and the prime minister under cohabitation, we believe that trade policy is firmly under the control of Prime Minister Chirac. Early on, Chirac and President Mitterrand tried to carve out their spheres of influence, and although each has subsequently tried to chip away at the other's powers, the demarcation has largely held. Mitterrand, as head of state, laid claim to the predominant role in foreign policy, and he has successfully projected the image of a firm leader through his participation in the Tokyo Summit in May and his visits to the United States and the Soviet Union in July. Chirac, on the other hand, has focused on domestic issues, especially economic reform and the strengthening of France's internal security apparatus. Trade policy, as an international economic issue with important domestic ramifications, would seem to be somewhere in between, but bureaucratically it has fallen squarely in the Prime Minister's lap. [REDACTED]

25X1

Formally, the initiative for French trade policy lies with the powerful Ministry of the Economy, Finances, and Privatization. The Ministry's head, Edouard Balladur, is the second-ranking cabinet member after Chirac, and he has emerged effectively as the deputy prime minister. Much of Balladur's attention has focused on the government's domestic program, and in our view his agenda is topped by a desire to get his boss elected president in 1988. Trade Minister Michel Noir, who serves under Balladur, is a longtime political ally of Chirac and a champion of the domestic liberalization program but is inexperienced in trade matters. Trade policy, where the conservatives do not diverge substantially from the views of the previous government, has been allowed to proceed on its own momentum. We believe it has largely fallen, at least for now, to lower ranking officials, especially career civil servants in the Directorate of Foreign Economic Relations (DREE). Noir's cabinet director, Francois David, and Jean-Marie Metzger, a top adviser, both came from the DREE. [REDACTED]

25X1

While Noir and his staff will be in charge of the day-to-day formulation of trade policy, other parts of the bureaucracy are likely to have an impact on Paris's position on trade questions. Perhaps most important will be the prime minister's staff, which will monitor trade issues carefully to see that French policy enhances the Prime Minister's political standing. In addition,

25X1

[REDACTED]

Chirac's Minister of Agriculture--Francois Guillaume, a strident champion of French farmers--is likely to take an especially keen interest in agricultural trade issues. Chirac also in mid-August shuffled his cabinet to fill, after a long hiatus, the post of Minister for European Affairs, a position that was at times given much prominence under the Socialists. Finally, the presidential staff at the Elysee Palace is also likely to try to keep a hand in trade policymaking, primarily through the interministerial committee headed by Elisabeth Guigou, a top Mitterrand aide. In our view the Elysee's power in this area is likely to wane, however, especially as Bernard Bosson, the new Minister for European Affairs, moves into his own. [REDACTED]

25X1

25X1

## Distribution:

External

- 1 - Charles Hobbs, Executive Secretary to the Cabinet Council on Economic Affairs
- 1 - Harvey Bale, Assistant United States Trade Representative
- 1 - Geza Feketekuty, Office of the US Special Trade Representative
- 1 - J. Murphy, Office of the US Trade Representative
- 1 - Charles Blum, Office of the US Trade Representative
- 1 - Katherine Hauser, Office of the US Trade Representative
- 1 - David Wigg, Director, International Economic Affairs, National Security Council
- 1 - Elmer Klumpp, Department of Agriculture
- 1 - Byron L. Jackson, Department of Commerce
- 1 - Alan P. Larson, Department of State
- 1 - Denis Lamb, Department of State
- 1 - Marshall L. Casse, Department of State
- 1 - Martin A. Wenick, Department of State
- 1 - Ralph R. Johnson, Department of State
- 1 - Marten H.A. VanHeuven, Department of State
- 1 - James R. Tarrant, Department of State
- 1 - Glenn R. Cella, Department of State
- 1 - Ralph E. Lindstrom, Department of State
- 1 - David R. Konkell, Department of State
- 1 - Douglas Mulholland, Department of the Treasury

Internal

- 1 - Addressee
- 1 - DDI
- 1 - NIO/Economics
- 1 - NIO/WE
- 1 - D/EURA
- 2 - EURA Production
- 4 - IMC/CB
- 1 - D/ALA
- 1 - D/OEA
- 1 - D/OGI
- 1 - D/OIA
- 1 - D/NESA
- 1 - D/SOVA
- 1 - D/OSWR
- 1 - D/CPAS
- 1 - D/OIR
- 1 - PES
- 1 - C/EURA/EI
- 1 - EURA/EI/EI
- 1 - Author